From the Desk of John Colley…

Economic Round-up… Housing appears to be in the process of turning the corner (increase in building permits and home resales) while home prices did fade slightly year-over-year even as the inventory of unsold homes also decreased. Housing's recovery will likely remain a "two steps forward and one-step backward" type of situation. The process of comeback will remain testy and slow; reflecting gradual steps of improvement.

What's the Good News … the Housing and Real Estate revival has begun and will no longer hold back the economic upturn in a big way like before. There are some geographic pockets which have not benefited, but the general mainstream has stabilized.

Other Wrinkles do Exist … such as higher gasoline prices, the Eurozone recession, and China's soft-landing slowdown (which the government there is trying to target at 8% GDP growth, while keeping a lid on its 6% inflation). The U.S. debt picture and the Presidential race dynamics remain center stage while corporate earnings show signs of a respectable B+ report card. Low interest rates also have a bullish undertone.

So, in brief, we remain largely constructive on the U.S. stock market and are willing to accept as normal the minor sell-off tendencies which are a healthy and integral part of any bull run cycle, especially after the run-up just witnessed here in the first quarter. A soft patch or pullback could be a good sign because markets must pace themselves. The "running out of steam" phenomenon seems to cause more breakdown and confidence problems. Even Apple's minor correction was necessary and reminds us that moves don't happen in straight lines either. Next Tuesday Apple will report first quarter results.

A degree of caution certainly applies to the economic climate we are living in. Investor sentiment still favors a bullish tilt, but we remain ever-vigilant and watchful in our monitoring. We are watching an irregular recovery and will continue to see conflicting data and cross-currents be the norm as a result. For example, we have seen the manufacturing and service sectors push up irregularly, we have witnessed auto sales, factory orders, and retail buying gaining traction, but not month-after-month (a sign of the sporadic times) and we have seen gains but unevenness in the jobs/labor market. The broadness of improvement is indeed encouraging even if it isn't as consistently strong as we'd like it to be. In contrast to one year ago, the fundamentals point to a sustainable business expansion.

The always-important earnings season is upon us (and will run into mid-May). At this juncture, it is perhaps more important to concentrate and study "forward guidance" projections rather than what actually happened in the first quarter. Please know that CAM spends a great deal of time and energy focusing on the financial strength and internal cash flows of investment securities (regarding: grades, quality ratings, momentum criteria, EPS revisions, vision) with the ultimate goal being to achieve fiscally-sound results in both short and long-term timeframes. We will remain agile and in-touch as part of your strategic approach and orientation.

Other Corporate News … Both IBM and Intel beat the Street with earnings and raised forward guidance.

Other News … Not to be alarming, but Warren Buffett has been diagnosed with early stage prostate cancer and thank the lucky stars that it is "not believed to be life-threatening in any meaningful way". "Long-term prognosis is good", the release went on to say and, "it is very treatable".

Reason for Retreat today (at the open) seems related to worries over Spain or Spanish banks (had debt hits a 17-year high). Here in the US, Bank of NY/Mellon results fall 1% year-over-year.

JC
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